

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Shepherd Tri-Township Fire Department	County Isabella
Audit Date 11/30/04	Opinion Date 2/22/05	Date Accountant Report Submitted to State: 3/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Page, Olson & Company, P.C., CPA's

Street Address

2865 South Lincoln Road - P.O. Box 368

City

Mt. Pleasant

State

MI

ZIP

48808-0368

Accountant Signature

Date

4/11/05

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
AUDITED FINANCIAL STATEMENTS AND
REPORT OF COMMENTS AND RECOMMENDATIONS
YEAR ENDED NOVEMBER 30, 2004

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
YEAR ENDED NOVEMBER 30, 2004

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SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
BOARD OFFICIALS
YEAR ENDED NOVEMBER 30, 2004

CHAIRPERSON

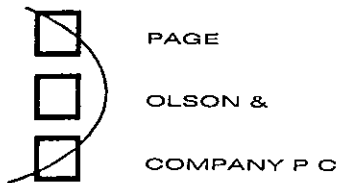
George Grim

VICE CHAIRPERSON

Tom Ramon

CLERK/TREASURER

Gwen Plowman



INDEPENDENT AUDITORS' REPORT

February 22, 2005

Board of Directors
Shepherd Tri-Township Fire Department
Isabella County, Michigan

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Shepherd Tri-Township Fire Department consisting of the following participating Local Units of Government: Chippewa Township, Coe Township, Lincoln Township, and the Village of Shepherd within the State of Michigan (herein after referred to as the Fire Department) as of and for the year ended November 30, 2004, as shown on pages 5 and 6, which collectively comprise a portion of the Shepherd Tri-Township Fire Department's basic financial statements required by accounting principles generally accepted in the United States. These financial Statements are the responsibility of the Shepherd Tri-Township Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1-B, the Department prepared these financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury to demonstrate compliance with the State's accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The differences in presentation allowed by the State and that of accounting principles generally accepted in the United States of America are also described in Note 1-B.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Shepherd Tri-Township Fire Department as of November 30, 2004, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

Board of Directors
Shepherd Tri-Township Fire Department
Isabella County, Michigan

Also, in our opinion, the basic financial statements presented do present fairly the minimum presentation allowed by the State of Michigan for each of its major funds and aggregate remaining fund information of the Fire Department as of and for the year ended November 30, 2004 and the respective changes in fund position and cash flow, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Fire Department as listed in the table of contents. The information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of comments and recommendations is included herein and forms a part of this report.

Page, Olsen & Company

**SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
BALANCE SHEET - GENERAL FUND
YEAR ENDED NOVEMBER 30, 2004**

Statement I

	<u>General Fund</u>
ASSETS	
Unrestricted	
Cash and Cash Equivalents	\$ 99,230
Investments	19,388
Prepaid Expenses	<u>23,246</u>
Total Unrestricted Assets	141,864
Restricted	
Cash and Cash Equivalents	<u>2,781</u>
Total Assets	<u>\$ 144,645</u>
LIABILITIES AND FUND EQUITY	
<u>Liabilities</u>	
Accounts Payable	\$ 245
<u>Fund Equity</u>	
Fund Balance	
Unreserved	
Designated Fund Balance	2,781
Undesignated Fund Balance	<u>141,619</u>
Total Fund Equity	144,400
Total liabilities and Fund Equity	<u>\$ 144,645</u>

The accompanying notes are an integral part of the financial statements.

**SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GENERAL FUND
YEAR ENDED NOVEMBER 30, 2004**

Statement II

	<u>General Fund</u>
Revenue	
Appropriations from Local Units	\$ 190,390
Interest Revenue	1,893
Gain on Investment	2,562
Miscellaneous	<u>1,074</u>
Total Revenue	195,919
Expenditures	
General Expenditures	
Wages	81,938
Salaries	16,265
Social Security Taxes	153
Office Supplies	2,885
Operating Supplies	10,502
Gas and Oil	3,464
Professional Services	3,031
Insurance	36,785
Utilities	7,079
Training	4,970
Repair and Maintenance - Equipment	4,132
Repair and Maintenance - Vehicle	14,584
Building and Grounds	2,916
Computer Software Support	389
Miscellaneous	174
Membership & Dues	405
Capital Outlay	12,718
Haz-Mat	<u>200</u>
Total General Expenditures	202,590
Capital Outlay from Restricted Funds	<u>823</u>
Total Expenditures	<u>203,413</u>
Net Change in Fund Balance	(7,494)
Fund Balance - December 1	<u>151,894</u>
Fund Balance - November 30	<u>\$ 144,400</u>

The accompanying notes are an integral part of the financial statements.

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The four local units of government participating in the Shepherd Tri-Township Fire Department as of November 30, 2004 include Chippewa Township, Coe Township, Lincoln Township, and the Village of Shepherd. The Shepherd Tri-Township Fire Department is established as a distinct and separate entity.

A. REPORTING ENTITY

In accordance with accounting principles generally accepted in the United States and Governmental Accounts Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these Financial statements present the Fire Department which has no component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury responsible for overseeing local unit compliance has determined that omission of the Management's Discussion and Analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation, as such the Fire Department has elected to omit these sections of the GASB 34 reporting format.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Amounts due from other governments, loans receivable, Fee funding, and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the general operating fund of the Fire Department. It is used to account for all financial resources except those required to be accounted for in another fund.

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. RESTRICTED ASSETS

Certain restricted cash and investment accounts have been established as required by donor requirements. The corresponding designations of equity are discussed in Note 5.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. DONATED REVENUE

Donated Revenue consist of funds donated to the Shepherd Tri-Township Fire Department by the Saginaw Chippewa Indian Tribe. These donations are used for the purchase of fixed assets.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the object level for the budgeted funds. State law requires the Fire Department to have its budget in place by December 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Fire Departments to amend its budgets during the year. The Fire Department amended its budget at various times during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated based on the level of control exercised over the adopted budget. Budgets are adopted on an object level for all funds. Disclosure of all unfavorable appropriation variances based on the level of control exercised over the adopted budget is as follows:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund			
Operating Supplies	\$ 10,150	\$ 10,502	\$ 352
Utilities	6,705	7,079	374
Training	4,410	4,970	560
Capital Outlay	11,700	12,718	1,018

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2004

NOTE 3 - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Fire Department Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Fire Department to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Department's deposits are in accordance with statutory requirements.

Investments held by Shepherd Tri-Township Fire Department consist of mutual funds and are stated at market value. Investments currently held by Shepherd Tri-Township Fire Department have a historical cost of \$14,736 and a market price of \$19,388 at November 30, 2004.

The risk disclosures for the Fire Department's cash deposits are as follows:

	<u>Insured (FDIC)</u>	<u>Uninsured and Uncollateralized</u>	<u>Total</u>
<u>Carrying Value</u>			
Cash and Cash Equivalents	\$ 100,000	\$ 2,011	\$ 102,011
<u>Bank Balance</u>			
Cash and Cash Equivalents	\$ 100,000	\$ 30,088	\$ 130,088

Due to varying cash flows, the Department's deposits with financial institutions may have been higher during the year than at year end. Therefore, there may have been more deposits that were uninsured during the year. The Department believes that, due to dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Reconciliation to Statement 1

The following is a reconciliation of the amounts reported in Statement 1 to the carrying amount of the Fire Department's Deposits:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 2,781	\$ 99,230	\$ 102,011

SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2004

NOTE 4 - LOCAL UNITS' INTEREST IN SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT

The local units' interest in Shepherd Tri-Township Fire Department is determined by the average of the ratios of taxable values and of population figures on each local unit.

For the Shepherd Tri-Township Fire Department year ended November 30, 2004, Chippewa Township, Coe Township, Lincoln Township, and the Village of Shepherd's interests in Shepherd Tri-Township Fire Department based on the above formula is 44%, 19%, 22%, and 15% respectively.

NOTE 5 - FUND BALANCE

Designated Fund Balance

The designated Fund Balance in the amount of \$2,781 has been designated for the future purchase of fixed assets.

NOTE 6 - RISK MANAGEMENT

The Shepherd Tri-Township Fire Department is a member of a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk management fund which protects members with loss protection for general and auto liability, motor vehicle physical damage and property. Contributions are applied to the procurement reinsurance, risk management, underwriting, payment of claims, establishments of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Fire Department has entered into various transactions with Grim Printing. A member of the Board is the owner of this company. The total amounts paid by the Fire Department to Grim Printing for operating supplies were immaterial in total for the year ended November 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

**SHEPHERD TRI-TOWNSHIP FIRE DEPARTMENT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED NOVEMBER 30, 2004**

Schedule 1

	Original Budget	Final Amended Budget	Actual
Revenue			
Appropriations from Local Units	\$ 175,325	\$ 190,390	\$ 190,390
Interest Revenue	4,000	2,000	1,893
Gain on Investment	1,000	2,000	2,562
Miscellaneous	<u>1,100</u>	<u>1,160</u>	<u>1,074</u>
Total Revenue	181,425	195,550	195,919
Expenditures			
General Expenditures			
Wages	66,600	81,938	81,938
Salaries	16,025	16,265	16,265
Social Security Taxes	200	200	153
Office Supplies	1,200	2,900	2,885
Operating Supplies	10,000	10,150	10,502
Gas and Oil	3,500	3,500	3,464
Professional Services	2,150	3,150	3,031
Insurance	30,000	37,020	36,785
Utilities	6,000	6,705	7,079
Training	3,200	4,410	4,970
Repair and Maintenance - Equipment	5,000	5,000	4,132
Repair and Maintenance - Vehicle	10,000	15,000	14,584
Building and Grounds	3,750	3,750	2,916
Computer Software Support	-	389	389
Revolving Fund	7,000	7,000	-
Miscellaneous	300	374	174
Membership & Dues	400	405	405
Capital Outlay	10,000	11,700	12,718
Haz-Mat	<u>578</u>	<u>578</u>	<u>200</u>
Total General Expenditures	175,903	210,434	202,590
Capital Outlay from Restricted Funds	<u>3,604</u>	<u>3,604</u>	<u>823</u>
TOTAL EXPENDITURES	<u>179,507</u>	<u>214,038</u>	<u>203,413</u>
Net Change in Fund Balance	1,918	(18,488)	(7,494)
Fund Balance - December 1	<u>137,051</u>	<u>137,051</u>	<u>151,894</u>
Fund Balance - November 30	<u>\$ 138,969</u>	<u>\$ 118,563</u>	<u>\$ 144,400</u>

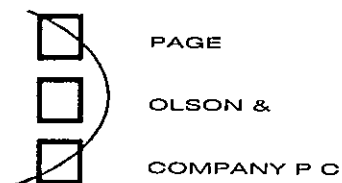
OTHER SUPPLEMENTAL INFORMATION

GENERAL FIXED ASSETS ACCOUNT GROUP
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
YEAR ENDED JUNE 30, 2004

Exhibit A1-1

	Balance 12/01/03	Additions	Deletions	Balance 11/30/04
Land	\$ 26,646	\$ -	\$ -	\$ 26,646
Building	128,203	-	-	128,203
Equipment	548,339	13,422	466	561,295
Vehicles	<u>1,084,152</u>	<u>585</u>	<u>-</u>	<u>1,084,737</u>
Total Investment in General Fixed Assets	<u>\$ 1,787,340</u>	<u>\$ 14,007</u>	<u>\$ 466</u>	<u>\$ 1,800,881</u>

The original Statement of General Fixed Assets was prepared by the Fire Department and was not tested for accuracy or completeness by the auditors.



AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

February 22, 2005

Department Board
Shepherd Tri-Township Fire Department
Townships of Chippewa, Coe, Lincoln and
the Village of Shepherd

We have recently completed our audit of the financial statements of the Shepherd Tri-Township Fire Department for the year ended November 30, 2004. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

We conducted our audit of the financial statements of the Shepherd Tri-Township Fire Department in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Department Board
Shepherd Tri-Township Fire Department

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to implementation of GASB 34 is discussed further in the other communications section.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit. We have the following to report to you at this time:

The following are the issues noted per the above referenced topics:

Discussed with the Fire Department Board Members the extent to which the township desired to implement GASB 34. Determined at this time, that the Fire Department would continue to maintain its records on a modified accrual basis and that year-end financial reports would be prepared directly from those records using the minimum statement formats suggested by the State reporting requirements.

In planning and performing our audit of the financial statements of the Shepherd Tri-Township Fire Department, for the year ended November 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/
EFFICIENCY**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

Reportable Conditions (Material Weaknesses)

Separation of Duties

There is only one person who handles all responsibilities related to disbursements, including the receiving of invoices and the preparation, signing, and mailing of checks. The separation of duties within an organization is one of the most important internal controls that an organization can have for a sound accounting system. We recommend that separation of duties be employed by giving the responsibility for the signing of checks to a separate employee other than the employee that prepares and mails disbursements.

Disbursement Approval

While reviewing the council meeting minutes, noted that the range of check numbers and the total amount of disbursements that is approved at each meeting is not recorded in the minutes. The treasurer prepares a schedule of disbursements which is submitted at each meeting for approval. We recommend that this schedule is attached to the minutes with the initials of council members indicating approval or the range of check numbers that are approved at each meeting be noted in the minutes as well as the total dollar value of those disbursements that are approved.

Also noted, while testing disbursements, that there were several instances in which approval was not indicated on invoices. Upon receipt, invoices should be initialed for approval by a responsible official. This procedure is important to strengthen internal controls within the accounting system and further authenticate the documentation process.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Department incurred expenditures in excess of the amount appropriated as noted in Note 2 in the Notes to the Financial Statements.

The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Department Board and documented in the Board's meeting minutes.

Copies of the originally approved budget must be attached to the minutes and copies of each revised budget should be retained in order to properly trace the amendments.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/
EFFICIENCY (CONTINUED)**

Reportable Conditions (Material Weaknesses) (Continued)

Credit Card Policy

P.A. 266 of 1995 provides that a local unit shall have adopted, by resolution, a written policy describing the unit's credit card arrangements. We noted during our audit that the Department has not adopted such a policy. We recommend that the Department establish a credit card policy that describes those responsible, the intended use, approval process, and any other matters prescribed by the Local Audit and Finance Division of the Michigan Department of Treasury.

Other Reportable Conditions

Financial Oversight

The general limitations in a smaller government require that the Department board members continue to remain involved in the financial affairs of the Department through oversight of operation, development of the annual budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. This comment is intended to emphasize the importance of this oversight and to remind the board of its continued obligation to perform accordingly.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Department's financial statements and this communication of the these matters does not affect our report on the Department's financial statements, dated February 22, 2005.

SUMMARY

We would like to thank the Department personnel and officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Department Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Page, Olson & Company